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SUBJECT: SOUTH AFRICAN FUEL PRICES REACH ALL-TIME HIGHS

REF: PRETORIA 2998

Summary

1. On April 6, 2005, the Department of Minerals and Energy implemented across-the-board increases for gasoline, diesel, and kerosene fuels. For the first time, the South Africa gasoline price breached the R5 per liter barrier (\$3.14 per gallon). This follows the substantial increases (8-12%) imposed in March. The main cause for the April increase was the surge in the international price of crude and higher taxes. Despite the record price, government has no plans to tap into its Fuel Equalization Fund to smooth retail gasoline price increases as it did last June. Economists still believe that fuel price increases will not materially impact the South African economy in the short term, unless the rand weakens substantially against the dollar or there is a dramatic spike in the price of crude oil. End Summary.

Government Announces Fuel Price Increases

2. On April 6, the Department of Minerals and Energy (DME) hiked the retail price for gasoline by 8.7% and wholesale prices for diesel and kerosene by 13.5% and 15.7%, respectively. The table below shows the increase in the average price of fuel in Johannesburg.

Johannesburg Prices U.S. Dollars/gallon

	March	April	%Change
Gasoline - (retail)	2.89	3.14	8.7
Diesel - 0.3% Sulfur (wholesale)	2.61	2.97	13.5
Diesel - 0.05% Sulfur (wholesale)	2.68	3.09	15.3
Kerosene (wholesale)	1.97	2.28	15.7

3. During the period of assessment, from February 28 to March 31, the rand/dollar exchange rate remained relatively unchanged at about R6.04, and therefore contributed negligibly to price increases. On April 6, the Fuel Levy and the Road Accident Fund Levy were each increased by 0.85 U.S. cents per liter on gasoline and diesel. With the exception of kerosene, across-the-board increases in these taxes and the rise in crude oil prices accounted for essentially all of the increase. Tax now accounts for 33.6% of the final price of fuel, less than half that of the U.K. and France, but nearly twice that of the United States. Factors for the increases are broken out in the table below.

Price Increases (U.S. cents/gallon)

	Crude	Taxes	Total
Gasoline	18.8	6.3	25.1
Diesel - 0.3% Sulfur	28.8	6.5	35.3
Diesel - 0.05% Sulfur	34.5	6.5	41.0
Kerosene	30.7	0.3	31.0

4. The cost breakdown of the new gasoline price is:

- basic fuel price 49.0%
- taxes and levies 33.6%
- operating margin 17.4%

No Cushion for Rising Fuel Prices

5. Since January 2004, the price of fuel has increased about 25%, considerably more than the 3-4% current inflation rate. Despite this substantial increase in fuel prices, there has been no talk of deploying the government's Fuel Equalization Fund to cushion prices, as was done in June 2004.

Comment

6. Most South African economists continue to believe that fuel price increases will not materially impact the South African economy in the short term -- unless the rand weakens substantially against the dollar or there is dramatic spike in the price of crude oil. While many economists believe that inflation may have bottomed at the current 3%, most do not believe that higher fuel prices will cause the economy to breach the Reserve Bank's upper inflation target of 6%, or cause a significant rise in food prices. The international price of maize, which is the staple for the majority of South Africans, is at a seasonal low.

